

KWDI Issue Paper

Research Title: Study on Ways to Improve Gender Equality in Businesses through ESG Management

Principal Researcher: Seung-hyun Lee, Research Fellow

How to Enhance Gender Diversity at Korean Companies through Adoption of ESG Management

Abstract

- ◆ ESG management is one of the key issues in the business management sector at home and abroad and has become a major management strategy to be adopted by Korean companies, with the amendment of Capital Market Act and introduction of stewardship code in Korea.
- ◆ The main objective of ESG management is to ensure socially responsible investment and sustainability. Korean companies need to prepare themselves for ESG management, because S(Society) and G(Governance) of the ESG management includes various issues for which Korean companies have been criticized, such as women's representation and gender gap in employment rate and wage.
- ◆ As the Korean government prepares ESG-related support programs along with its K-ESG Guideline and enables more domestic companies to adopt ESG management in the future, the challenges experienced by female workers in the labor market will be resolved to a certain degree.
- ◆ In this regard, this study proposed policy ideas for the government's ESG support programs to help improve gender equality at Korean companies, by ① reviewing the evolution and theoretical discussion of ESG management, ② identifying the current practice and methodology of ESG management concept regarding the companies' efforts to resolve gender issues, ③ analyzing the trends in Korean companies' ESG management implementation, and ④ reviewing the Korean government's K-ESG Guideline and related policy programs.

Research Background

- ESG management has become a global topic, as it is considered important to assess the ‘sustainability’ of a company by measuring the intangible assets of the company based on ESG indicators before making an investment in the company. Several empirical studies have proven the effectiveness of ESG management, and COVID-19 pandemic had an influence on the spread of ESG management as well.
- Many countries have already put in place policies and systems to encourage ESG management. The U.K., Australia, Sweden, Germany, France, Norway, Belgium, Italy, Canada, the Republic of South Africa, and Brazil adopted a policy that makes it mandatory for businesses to disclose their ESG information. In the case of Korea, the National Pension Service of Korea adopted a stewardship code in 2017 and is encouraging companies to conduct ESG management activities. However, there has not yet been a tangible effect of such efforts, because ESG management is considered a voluntary option in Korea.
- ESG management refers to the practice of emphasizing the importance of socially responsible investment and sustainability in consideration of the combined values of E(Environment), S(Society), and G(Governance). Gender issues including gender equality are closely linked to the category of ‘S(Society)’ and ‘G(Governance)’ and hence have emerged as an important topic of ESG management.
- ESG management was the most discussed topic in the general shareholders’ meetings held by Korean companies in March, 2021. In fact, many of the major companies presented to their general shareholders’ meetings the agendas to create an ESG committee or a dedicated organization and to appoint an ESG expert or female outside directors. This indicates that Korean companies have begun to adopt ESG management due to the amendment of Capital Market Act and introduction of stewardship code in Korea.
- Korean companies that started ESG management have focused their efforts on recruiting female outside directors. This is because gender equality is one of the biggest issues they should address in their ESG management activities. The issues of women’s representation and gender gap in wage among Korean companies have already been pointed out by global institutions for a long time as an issue to be improved, but these issues are still ongoing.
- In this regard, Korea Institute of Corporate Governance(KCGS) requires that companies should include women’s participation-related evaluation indicators in the ESG management evaluation model. Korea Exchange also mentioned that it plans to develop and include ‘Women Index’ in its ESG indices.

- The Korean government prepared a plan to expand ESG infrastructure through collaboration among related government departments in August 2021, and announced the K-ESG Guideline in December 2021. However, the Korean government presented a very passive response to gender equality and gender issues among the major items and indicators in its K-ESG Guideline.

Main Research Content

● Discussion of gender equality in ESG management

● ESG management and gender & diversity management

- ▶ ESG consists of three elements of Environment(E), Society(S), and Governance(G). Most of the attention has been paid to Environment, but gender issues such as gender equality, diversity, and women's representation in the Board of Directors in the categories of Society and Governance have become more important in ESG management.
- ▶ The growing importance of gender issues is closely related to the establishment/evolution of global ESG management standards, changes in the legal/institutional environment, and the pressure from the society. It is also highly influenced by the fact that companies, which actively promote gender equality, demonstrate higher financial performance as well as by the unusual COVID-19 pandemic.
- ▶ Overseas countries are already utilizing gender equality assessment indicators in the ESG-related disclosure documents. The gender equality assessment indicators include gender diversity of the Board of Directors, gender-equal management of human resources in terms of hiring, allocation, education/training, and promotion, basic salary and remuneration for women compared to men, and the corporate policy/practice for preventing or eliminating sexual harassment and sexual discrimination.

● ESG management and investment based on gender perspectives

- ▶ Investment based on gender perspectives refers to the practice of including gender issues in the financial analysis of a company when determining the valuation of the company and making the investment decision.
- ▶ Investment based on gender perspectives is considered important due to the expectation that companies, which pursue social changes by giving opportunities to women and tackling unfairness in employment, have higher long-term sustainability.
- ▶ Pension funds of major countries are actively adopting investment strategies based on gender perspectives (The Norwegian National Wealth Fund, Canada's National Pension Fund, etc.), and representative investment managers and investment institutions such as SSGA, Bloomberg, and MSCI have developed and are utilizing various investment indices based on gender perspectives.

● Global ESG adoption trends

- ▶ The biggest global ESG trend is that major countries are adopting ESG as a sustainable investment strategy. According to GSIA(2020), ESG integration strategy attracted the largest amount of investment (USD 25 trillion) in which the U.S. comes first with USD 16 trillion, followed by the EU (USD 4.1 trillion), Canada (USD 1.2 trillion) and Japan (USD 1.9 trillion) as of 2020.
- ▶ The leading countries in terms of ESG evaluation are all drawing up a legislation to implement ESG. European countries and the US have already enacted and are implementing ESG-related bills.
- ▶ Considering the result of our review on the global ESG information disclosure guidelines and evaluation indicators, it is difficult to evaluate a company's overall sustainable development efforts. Evaluating all elements of Environment, Society, and Governance, in particular, equals to evaluating all the management activities of a company. Diverse methodologies have been developed to evaluate the ESG management performance, but currently there is no standardized evaluation method.
- ▶ Indicators from GRI(Global Reporting Initiative), SASB(Sustainability Accounting Standards Board), DJSI, MSCI ESG Index, and Sustainaly are some of the most frequently used global indicators. These indicators include sub-indicators related to gender diversity and require companies to disclose information about their efforts to reduce discrimination against a certain gender.

● The Korean government's progress in ESG implementation

● Background of K-ESG Guideline development

- ▶ Korean companies came to experience three types of challenges with the increase in the number of ESG evaluation institutions and diagnosis indicators.
 - Since a wide variety of ESG evaluation methods have been developed, the Korean companies have faced the necessity to secure a massive number of human resources, financial resources, and time to respond to ESG evaluation.
 - It has been difficult for Korean companies to establish an active ESG response strategy due to the absence of detailed information about the evaluation indicators/methods.
 - It has been challenging for Korean companies to respond to ESG-related issues due to the difference between Korea and other countries in terms of understanding and approaching the social/cultural issues.
- ▶ Therefore the Korean government prepared K-ESG Guideline as a way to help Korean companies prepare for and respond to the ESG evaluation.

Characteristics of K-ESG Guideline

- ▶ The Ministry of Trade, Industry, and Energy led the establishment of K-ESG Guideline v1.0. The ESG diagnosis items in the K-ESG Guideline were designed in consideration of Korea's specific context, based on the common indicators used in major ESG disclosure standards and evaluation process at home and abroad.
- ▶ The K-ESG Guideline faithfully reflects its intended objectives of providing detailed information that Korean companies could refer to in their ESG management, instead of evaluating their ESG management level.

How gender equality elements are currently reflected in the K-ESG Guideline

- ▶ Although this Guideline includes ESG diagnosis items regarding the proportion of female employees and the wage ratio between female employees and male employees, it does not suggest other diverse diagnosis items related to gender equality.

Current K-ESG policy support

- ▶ The Korean government announced the 'ESG Infrastructure Expansion Plan' in August 2021, which explained the policy directions to support ESG management activities of Korean industries and companies. The policy directions can be summarized into the following three points.
 - Firstly, the Korean government aims to 'facilitate ESG management disclosure more actively,' by developing K-ESG Guideline and making ESG disclosure mandatory so that diverse stakeholders can understand and utilize the information about ESG management practices of the companies. The government will also expand the infrastructure to support ESG disclosure-related activities.
 - Secondly, the Korean government plans to 'build the ESG capacity of small and medium-sized enterprises', by conducting diverse surveys to identify the current status of ESG management in SMEs and developing an ESG self-diagnosis tool to help companies check their ESG level on their own. The government is also expected to develop and operate various forms of education programs for the ESG capacity-building of SMEs. In addition, the government is expected to increase incentive programs for the companies with good ESG practices.
 - Thirdly, the Korean government is expected to encourage 'public institutions to lead ESG management' at first. Considering that the launch and operation of the government's new policy strategies usually begin with public institutions, the government is likely to make a stronger requirement that public institutions should carry out ESG management activities first.

- ▶ The Korean government's ESG management policy is focused on creating the basic ESG management system for the Korean companies, as an effort to upgrade the overall ESG-related infrastructure. This is why the government's ESG management policy does not indicate detailed issues about how to consider and improve gender equality or gender diversity in the ESG management activities.

● Analysis on the current ESG activities of Korean companies

● Analysis on ESG-related questionnaire survey

- ▶ Three questionnaire surveys are analyzed related to ESG, and the results are as follows.
 - We analyzed the survey on 'Koreans' Perception on Social Issues' to understand how the general public perceives ESG. According to our analysis results, the Korean public had a relatively high interest in social issues but were significantly lack of awareness or understanding on ESG. With the lasting COVID-19 pandemic and economic recession, the Korean public chose income/housing problems and labor issues as the most urgent social issues to be resolved. But they chose environmental pollution and climate change as the second-most urgent social issues to be resolved, which implies that the public is likely to have more interest in the Environment(E) of ESG. The Korean public perceives that Korean large companies are not actively responding to social issues and are lack of efforts to reduce greenhouse gas emissions. It implies that large enterprises of Korea should make further efforts to address the issues mentioned above. Our analysis on this survey results also shows that the Korean public is willing to participate actively in the efforts to resolve social issues, such as boycotting bad companies and buycotting the goods from companies that fulfill their social responsibilities.
 - We analyzed the 'Survey on Korea's Top 500 Companies regarding their Preparation for and Perception of ESG', which was conducted for Korea's representative top 500 companies in terms of the volume of revenues. Since most of these companies are large companies representing Korea and are actually expected to lead ESG management in Korea, they have already established or are planning to establish an ESG-related internal organization or a dedicated team. However, many of them are worried about their lack of expertise in ESG tasks because it has not been long since the adoption of ESG management. However, they are expected to implement a wider range of ESG strategies, as a majority of these companies answered that they allocated bigger budget for their ESG businesses this year. But according to the survey results, these companies feel a heavy burden on disclosing non-financial information. They are currently focusing on 'Environment' among the ESG areas and are expected to implement 'Environment' tasks first such as reducing carbon emissions and utilizing renewable energy. What is lacking in the efforts of these top 500 companies is that they have almost no interest in gender issues. For the time being, they seem to have a long way to go to highlight gender issues in their ESG activities.

- We explored the perception of and preparation for ESG among the Korean companies with 100 or more employees, through the '2022 Women Manager Panel Survey.' These companies were much less prepared for ESG management, compared to the top 500 companies mentioned above. For example, CEOs of these companies had low interest in ESG and thought that they need ESG management to improve their corporate image. Unlike large companies that would face various disadvantages in exploring local and global markets if they don't adopt ESG, smaller companies with 100 or more employees do not have the urgency to mandatorily adopt ESG. Meanwhile, the companies with 100 or more employees showed higher interest in the category of Society(workers) than in the category of Environment. It shows that they are not directly related to the regulations of the environment sector. In the category of governance, however, the companies with 100 or more employees had a relatively higher interest in the diversity of the Board of Directors and among the employees. It implies that it is possible to emphasize the importance of managing diversity for companies with 100 or more employees, unlike large companies that are sensitive to the Environment category of ESG. However, there are many challenges that make it difficult for smaller companies to adopt ESG management. For example, the smaller companies do not feel the urgent need to adopt ESG because they think it is less related to their own business. Many of them have low awareness on ESG or consider ESG as a cost. In conclusion, it will take a long time for Korea to spread ESG management across the local companies, because half of them have no organization dedicated to ESG, nor a plan to create one in the future. In the case of Korea, ESG management is expected to be conducted mainly by large companies for the time being.

Analysis on the current ESG practices of the companies participating in Women's Empowerment Principles(WEPs)

- ▶ We analyzed how the Korean companies which adopted ESG management are carrying out ESG activities, in order to have a look at their current gender issues including gender equality or gender diversity. But the existing information disclosed by these companies was more of a PR document. Therefore we utilized 'WEPs Tool-Corporate Gender Gap Assessment', which is an internal data of UNGC(UN Global Compact) Korea Association. This data is based on the information disclosure made by Korea's 9 representative companies by type of industry/company. After reviewing the disclosure document of these 9 companies, we found that they include a foreign company(1), large companies(5), a mid-sized company(1), SME(1), and a public institution(1), all of which are representative companies that have declared ESG management.
- ▶ According to our analysis, the most gender-equal company was the large foreign company, and all other companies except a financial holdings company did not meet even half of the gender-related indicators. In other words, gender gap was wider than expected among the Korean companies. Although the WEPs Tool is a diagnosis tool based on global standard, this tool-based assessment results of the Korean companies are somewhat disappointing because these companies are Korea's representative ESG-practicing companies and most of them are large organizations.

- ▶ For example, the proportion of women in the total regular employees was 10~20% and women accounted for a significantly large proportion among temporary employees in most of the companies except the public institution, in the WEPs Tool-Corporate Gender Gap Assessment. In terms of wage, female employees were paid less than male employees in all of these companies, and half of these companies had no affirmative policy in place to prohibit discrimination against a certain gender in capability development and promotion processes. In addition, companies, which have smaller number of female employees by nature of their industry, received low grades in the assessment of many gender-related indicators. It was confirmed in our analysis that companies with smaller number of female employees were less considerate of women or maternity. Meanwhile, the mid-sized company and SMEs received lower grades in most of the gender-related indicators, which implies that smaller-sized companies in pursuit of ESG find it difficult to catch up with large companies' ESG response. The most shocking result was that many of the large companies were not considerate of the consumers or women in the local community, nor the impact of their products or services on different genders.
- ▶ In other words, Korean companies have not fully addressed the issues of women's representation and their employment status in their organizations, in their ESG management activities. And their ESG response has not yet reached their consumers and local community. However, many of the Korean companies have plans to consider gender issues in various corporate activities, and hence they are expected to take more interest in the gender issues for the future.

Analysis on current ESG practices of 500 SMEs

- ▶ It was difficult to find a quantitative data that shows the current status of ESG practices among Korean SMEs because Korean SEMs have hardly proceeded with ESG management. Therefore, we referred to the ESG assessment results of 500 Korean SMEs from the internal data of Korea Rating & Data, and analyzed the assessment results related to gender issues. Through the analysis, we explored how Korean SMEs are responding to the issues of gender equality and gender diversity.
- ▶ Korea Rating & Data developed the ESG assessment indicators in a way to reflect the context of Korean SMEs. According to our analysis on the details of the ESG assessment indicators, there were only 6 indicators related to gender issues(guarantee of human rights, flexible working system, ratio between men and women, and contractors in the category of S(Society), and the Board of Directors and audit organization in the category of G(Governance)) out of the 60 indicators. Considering the circumstances of Korean SMEs, it is deemed difficult to emphasize the importance of gender issues in their ESG management.
- ▶ The 500 SMEs received low grades in most of the indicators, and their score was at or above the average only in terms of the guarantee of human rights. But the larger the size of the SME, the higher their score was in each of the indicators. This trend appeared in a consistent way among the 500 SMEs. This confirms again that considering the reality, ESG management is a feasible option for larger companies in Korea.

● Diagnosis on the current ESG activities of Korean companies

● Results of FGI for working-level employees of ESG rating institutions

- ▶ We conducted an FGI for the working-level employees of Korean ESG rating institutions, in order to identify in which area the Korean ESG assessment indicators need improvement/supplement and how the Korean ESG management needs to evolve for the future. In this FGI survey, we focused on the current status/characteristics of the ESG management activities and gender issues among Korean companies. We summarized the findings from the FGI as follows.
 - It is still mostly the large companies that have interest in the ESG management, and the large companies' interest is concentrated to the category of E(Environment). It might be probably because large companies are highly resistant to the adoption of G(Governance) category, as it affects their own way of management. Large companies also find it difficult to manage S(Society) category because 'S' covers such a wide and diverse range of issues. Since gender equality-related indicators are included in the S(Society) category in which the companies are less interested, gender equality accounts for a small portion in the overall corporate ESG activities.
 - In the ESG assessment process, it is important to identify the reasons for a certain evaluation score or problems and make improvement, instead of just focusing on the score itself. This is at the heart of what the ESG rating experts do in their ESG assessment and consulting. Regarding the gender equality-related issues, however, it is not desirable to give direct pressure or burden to the Korean companies because they do not have positive perception on gender equality-related requirements. In other words, it is necessary to manage gender equality-related issues of the Korean companies in an indirect manner such as encouraging them to help women maintain their career without having to quit their jobs and to ensure the equality of opportunities for all, instead of requiring them strongly to respond to the relevant ESG indicators.
 - For now, it is not appropriate to include mid-sized companies and SMEs, besides large enterprises, in our research on Korean companies' ESG management activities because mid-sized companies and SMEs are not highly interested in the ESG management. But it would be meaningful to review corporate ESG practices and explore the differences in ESG management among Korean companies depending on their size and characteristics

● Results of the workshop for ESG managers from different sizes of companies

- ▶ We conducted a workshop for ESG managers of Korean companies to identify how Korean companies are proceeding with ESG management, along with the gender equality issues and responses under consideration and their policy demand for the future. Results of the workshop are summarized as follows.

- In Korea, ESG management is being driven mainly by large companies and public institutions. SMEs have a significantly low awareness on ESG management and do not consider ESG management as an urgent imperative, unlike large companies or public institutions. One of the reasons is that large companies are supposed to disclose most of their corporate information due to the relevant information disclosure regulation and have no choice but to disclose their information for the purpose of investment or business transactions. Public institutions also disclose their information through 'Alto' in accordance with the government's policy. However, such a corporate information disclosure system does not apply to SMEs.
- What makes ESG management distinguished from the existing management method is that the companies are required to manage ESG indicators as their corporate data. Companies have no choice but to make institutional and policy efforts to solve issues or to achieve the ESG indicators, because these indicators are directly linked to the sustainability of the companies. In Korea, major large companies are already managing their ESG indicators well to reach the global standard. Particularly, gender issues or generational conflict management have become important keywords to be addressed in the HR management or HR policy in the large companies. Large companies have already begun to seek ways to communicate and echo the value of ESG and the meaning of the ESG indicators to their employees, which is considered an important task in their ESG management.
- Social enterprises cannot just rely on the profit from selling their products but absolutely need the policy incentives or investment programs dedicated to social enterprises. Therefore it is important to enact a policy that supports social enterprises which run their businesses to realize social values, besides the policy that encourages general companies to implement ESG management.

Tasks and Policy Recommendations for Each Stakeholder

Tasks for companies

- ▶ Companies need to consider ESG management as a process to realize the interest of diverse stakeholders.
- ▶ It is necessary to set a specific quantitative target and achieve the target on a step by step basis, in order to solve the issues related to gender equality and gender diversity within the organization through ESG management.
- ▶ One of the main issues to be addressed in the ESG management, in particular, is 'occupational gender segregation.' Companies should create an environment where both women and men can work in diverse areas according to their competence regardless of gender roles.

Policy recommendations for the government

- ▶ The government should deliberate on the new value and criteria of ‘gender equality.’ In other words, the government needs to promote strategic changes in its policies periodically, instead of just maintaining the existing policies and systems. Especially, the government should reflect the demands and trends of the society in the overall policies related to female employees that have so far been focused on marriage, pregnancy, childbirth, and childcare. It is also important to improve such policies by considering how to manage the conflicts among employees within an organization.
- ▶ The government needs to utilize information disclosure system to spread ESG management among the Korean companies. The government should make the best use of the corporate information disclosure system at a policy level and enable a wider adoption of ESG management among large companies and public institutions first. The ESG information disclosure items should include information about their contractors.
- ▶ It is necessary to include gender equality issues in the ESG management indicators for three representative Korean institutions. Specifically, Financial Services Commission should include gender equality-related items in its ESG Guidance. Public Procurement Service should include gender equality and gender diversity-related items in the social responsibility evaluation items in its public procurement process. National Pension Service should also reinforce gender equality and gender diversity items in its ESG assessment model.
- ▶ The government should provide more support for the social enterprises that were established for the purpose of realizing social value. Although there are systems in place to support social enterprises, the social enterprises that are dedicated to the value of gender equality and gender diversity are lack of policy support in reality.

Tasks for employees

- ▶ Currently ESG management applies to larger(the so called ‘good’) companies where female employees are included in the beneficiaries of ESG practices. But female employees in SMEs also deserve the benefit from ESG management. Considering the fundamental objectives of the ESG management, it is important to spread the value of ESG management not only to larger companies but also to SMEs so that female employees in SMEs could also enjoy the benefit of ESG. In this regard, we suggest a task for employees that they should form solidarity with each other and perform the role of an internal watchtower over the ESG activities of their organizations.

- ▶ Labor unions consisting of the employees of large companies or prime contractors should actively participate in the ESG management activities of their companies. In this process, they need to ensure solidarity with the employees of their suppliers and subcontractors(usually SMEs) when discussing how to enhance their working conditions.
- ▶ By doing so, they will be able to require the prime contractors, for example, to address the issues experienced by female employees, many of whom are employed by SME suppliers without any labor union. This could be considered as a way to practice the laborer's solidarity, which is an important proposition of a labor union.
- ▶ In other words, labor unions consisting of employees should take an active part in the ESG management process, instead of just entrusting the ESG management to their companies. They should perform the role of a watchdog for the corporate ESG activities, from the perspectives of the employees.

Tasks for consumers and the public

- ▶ Consumers are also an important part of ESG management because the values of ESG management apply not only to individual companies but to the entire society and are closely related to tackling critical problems of the society.
- ▶ At first, consumers should choose companies that realize gender equality through ESG management when buying a product/service. Going forward, the group of consumers need to take one step further to monitor and criticize, if necessary, the corporate ESG management activities including the efforts to address gender equality and other social issues. By doing so, consumers should exert a greater influence on the sincere ESG management activities of companies

Responsible ministry : Industry Policy Division of the Ministry of Trade, Industry, and Energy

Relevant ministry : Human Resources Development Division of the Ministry of Gender Equality and Family